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INFO RUEHUJA/AMEMBASSY ABUJA PRIORITY 0349
RUEHLI/AMEMBASSY LISBON PRIORITY 0641
RUEHFR/AMEMBASSY PARIS PRIORITY 0803
RUEHYD/AMEMBASSY YAOUNDE PRIORITY 0669
RUEHOS/AMCONSUL LAGOS PRIORITY 0631
RUGNOA/HQ USEUCOM VAIHINGEN GE PRIORITY
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C O N F I D E N T I A L LIBREVILLE 000391

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TAGS: [EPET](#) [ECON](#) [EFIN](#) [ENRG](#) [GB](#) [TP](#)
SUBJECT: GABON AND SAO TOME & PRINCIPE OIL UPDATE

REF: A. LIBREVILLE 160

[1](#)B. 05 LIBREVILLE 1014

Classified By: Michael Garcia, Economic Officer, for reasons 1.4B and D

[1](#)1. Following is an update on the oil sector in Gabon and Sao Tome and Principe.

Gabon

[1](#)2. (U) Production Down - According to the Ministry of Natural Resources, Gabon's oil production in the first quarter of 2006 dropped by 8.4% over the previous year. The Ministry stated that Gabon produced 3,329 million tons of oil from January to March 2005, while this period in 2006 saw 3,050 million tons. As a result, oil exports fell 4%, from 3,118 million tons in 2005 to 2,994 million tons in 2006.

[1](#)3. (C) Refinery - In preparation for negotiations on an IMF 3-year precautionary stand-by agreement, a member of the IMF delegation has been looking into contractual obligations in the oil sector's production sharing agreements. One area of focus is the possible requirement for oil companies to supply the refinery (SOGARA) in kind at a 25% discount or by paying the monetary equivalent. This requirement may be worth \$50 million to the government. An IMF delegation is expected in Gabon at the end of June to negotiate the stand-by agreement and oil revenue/transparency will be an area of interest.

[1](#)4. (C) Hess Leaving, Mitsubishi Coming - Amerada Hess will close its office in Gabon by the end of June 2006. As mentioned in ref A, Hess' local manager, Joe Ritchie, stated the company drilled 10 wells in the past few years and found no commercial prospects. It is unclear if Hess will keep or sell its shares in the Gabonese blocks for which it is currently the operator. While Amerada Hess is leaving, Mitsubishi Oil has opened an office in Libreville.

[1](#)5. (C) VAALCO Expanding - VAALCO's General Manager in Gabon, Michael Murphy, stated that the company hopes to bring on-line a platform in its Etami field by the end of 2006 and is currently negotiating an exploitation agreement with the government for its Mutamba field. The addition of a platform in Etami is expected to bring VAALCO's total Gabon production to 30,000 b/d, which is what Marathon (currently the fourth largest producer in Gabon) produces. While the big companies

may not be interested in Gabon's oil industry, Murphy stated two reasons which will continue to attract smaller companies to Gabon: (1) high oil prices and (2) the government's welcoming of foreign oil firms.

Sao Tome & Principe (STP)

¶6. (C) Chevron - On May 26, Chevron issued a press release announcing that its first exploratory well in Block 1 of the Joint Development Zone (JDZ, shared by STP and Nigeria) found hydrocarbons, but it is premature to determine if this represents a commercial discovery. According to Chevron's STP Country Manager, Tim Parsons, the well only encountered a few oil bearing zones and it will be a struggle to make it commercial. Chevron will now integrate all the results of the well, then determine if there is enough justification to drill a second well, which would not be likely before mid-2007. Parsons added that if Chevron decided to abandon Block 1 in the future, it would be economically unlikely that any other oil company (big or small) would come in.

¶7. (C) ERHC - The rumor in STP (which appears to be supported by documents on ERHC's website) is that ERHC is being investigated by the SEC as a result of the STP Attorney General's examination of the second round bid of the JDZ (ref B). At the same time, Parsons told EconOff that ERHC has already turned a profit on its holdings in the JDZ by selling some of its shares in Blocks 2, 3 and 4 to Addax and Sinopec.
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